Department of Finance

Government Money Purchase Pension Plan Committee

2010 Annual Report

June, 2011

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Government Money Purchase Pension Plan
Administration Committee
P.O. Box 8700
St. John's, NL
A1B 4J6

June 30, 2011

Honourable Thomas W. Marshall, Q.C.
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Marshall:

As the Chair of the Committee responsible for the Government Money Purchase Pension Plan (GMPP), I hereby submit the 2010 Annual Report on behalf of the Committee. The report was prepared under the direction of the GMPP Committee and the Committee is accountable for the results contained herein.

The GMPP Committee's mandate is to administer the GMPP, including the setting of investment policy, the recommendation for appointment of an administrator/custodian, the selection and oversight of the investment manager(s) and the monitoring of plan performance.

The GMPP is a capital accumulation plan, that is, the level of benefits provided at retirement is dependent on the contributions and the income earned on those contributions during an employee's career. It is critical that participating employees become actively engaged in the management of their respective plan assets in order to ensure security in retirement. This is a key strategic issue for the GMPP Committee. Plan members have been reluctant to make an investment choice, and instead are allowing their funds to be directed to the low risk, low return default investment available under the Plan. Employees should be aware of both the risks and rewards of making an active investment decision and the potential impact on their return goals.

This report outlines the activities of the GMPP Committee and the growth in assets and membership during 2010.

I am pleased to submit the 2010 Annual Report for your consideration.

Yours sincerely,

Laurie Skinner

Laurie Skinner
Chair of the GMPP Committee

1.0 Overview

The GMPP Committee was established by the Lieutenant-Governor in Council to oversee the operations of the Government Money Purchase Pension Plan. Employer representatives are appointed by virtue of their positions in government, while employee representatives are appointed based on the recommendation of the various unions. Committee members are responsible to ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

Government Money Purchase Pension Plan Committee Members
(as of December 31, 2010)

Government and Employer Representatives:	
Laurie Skinner, Chairperson	Assistant Deputy Minister, Financial Planning and Benefit Administration, Department of Finance
Maureen McCarthy	Director, Pension Administration
William Noftall	Manager, Pension Benefits
Brian Shortall	Executive Director, Newfoundland and Labrador School Board Association
Rick Hindy	Manager of Budgeting
Michael Rickert, Secretary	Departmental Program Coordinator
Employee Representatives:	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Steve Brooks	Newfoundland and Labrador Teachers' Association
Sharon King	Association of Allied Health Professionals
Dawn Learning	National Representative, Canadian Union of Public Employees
Eileen Humphries	Newfoundland and Labrador Nurses' Union

The retirement security of a GMPP member depends on the member's investment decision, which in turn depends on the member's investment profile and risk tolerance. Consequently, it is critical that members take an active interest in their portfolio. To facilitate prudent investment decisions by members the Committee has established and implemented a Statement of Investment Policies and Procedures which specifies the investment options to be provided to members. These options include Guaranteed Investment Accounts (GIAs) and market based funds, including an equity fund, a bond fund, a global equity fund and a balanced fund.

To assist in fulfilling its mandate to educate plan members, the Committee has retained the services of Great West Life Assurance Company who fulfills the roles of both the custodian and administrator of the GMPP. The Committee also retains an investment consultant, Russell Investments to assist in the design, implementation, and ongoing evaluation of all aspects of the pension investment program.

Phillips, Hager & North Investment Management Limited (PH&N) has been retained to manage all market based investment products and Morneau Shepell, on an as needed basis, provides advice on various pension issues relating to compliance with pension legislation and the *Income Tax Act*.

2.0 Mandate

The GMPP Committee's mandate, pursuant to the provisions of the *Government Money Purchase Pension Plan Act*, is to administer the GMPP, including appointing an administrator/custodian, setting investment policy and monitoring plan performance.

3.0 Lines of Business

Ensure that contributions accumulated to the credit of the employee are invested prudently in the investment classes prescribed by the Committee and to promote the plan and educate employees on the importance of taking an active interest in their investments.

4.0 Vision

The vision of the GMPP Committee is that all participating employees, using guidelines presented to them by the plan custodian, select an investment strategy suited to their retirement objectives with the ultimate goal to maximize the amount of pension funds available at retirement, but with a reasonable level of risk.

5.0 Values

Inclusion: Each Member of the GMPP Committee acknowledges each others' views and perspectives and has the right/opportunity to express their own.

Independence: Each member, while representing the interest of diverse stakeholders, recognizes that the decisions of the GMPP Committee are in the best interest of all stakeholders.

6.0 Primary Clients and Stakeholders

The primary clients and stakeholders for the GMPP Committee are the employees who participate in the plan.

7.0 Mission

Consistent with its vision of engaging employees in the investment decision making process, the Committee's mission is to improve employee's participation in the investment selection process. Currently, less than 50 per cent of members make an active investment decision with respect to the funds they are contributing to the GMPP. Ideally, by 2010, the committee would like to see a significant number of members make an active decision with respect to their funds.

By 2010, the committee would like to see at least 75% of members make an active decision with respect to their funds.

Measure: **More plan members making an investment choice**

Indicator: **Percentage of members making an active investment decision is increasing**

As of December 31, 2010, only 36% of participating plan members had made an active investment decision. This compares to 37% at the beginning of 2008. The committee attempted to engage more employees in the investment selection process by increasing attendance at the annual information sessions. This was done through advance advertising of the times and locations in the quarterly benefit statements, coordinating of communications with the employers and unions, increasing the number of sessions at various locations, offering sessions both during and outside working hours and where possible, presenting sessions at workplaces.

8.0 Key Statistics

Administration Costs - December 31

	2010	***2009***
Investment Management Costs (PH&N)	$ 267,804	$ 223,763
Russell Investments	14,000	14,000
Annual Pension Plan Registration	7,500	7,500
Support Staff	42,322	42,886
Total Administration Costs	$ 331,626	$ 288,149

Since the inception of the GMPP in 1989, actuarial consulting and support staff costs have been paid from employer contributions that are forfeited when members who are not vested, terminate from the plan and take a refund of their contributions. The balance in the forfeitures account was $1,930,781 as of December 31, 2010 as compared with $1,496,148 as of December 31, 2009.

Investment management fees for Philips Hager North, which are based on a percentage of the total plan assets which they manage, are paid directly from the plan member from investment earnings.

Membership Status

Plan membership has increased from 29,184 accounts in 2009 to 30,608 accounts in 2010. The number of accounts includes both active participants and terminated employees who have left their funds on deposit with Great West Life. Of the total number of accounts, 13,271 are members who contributed during 2010. Commencing in 2004, efforts were made to contact many of the account holders to advise them of their transfer options should they wish to move their funds from the plan. The following table details the change in membership from 2009 to 2010.

	2010	2009
Membership, January 1	29,184	28,410
Additions		
Enrolments during the year	3,349	3,479
Less: Exits		
Terminations	1,777	2,558
Death Benefits	29	34
Retirements	119	113
	1,925	2,705
Membership, December 31	**30,608**	**29,184**

9.0 Financial Highlights

Market Value

Employee contributions for the year totalled $12.6 million of which $244,000 were Additional Voluntary Contributions (AVC's). Plan members may deposit AVC's to the plan, subject to RRSP limitations under the *Income Tax Act*. These AVC's are not matched by the employer. An additional $75,074 was transferred into the GMPP from other pension plans. Employer contributions for the year totalled $12.4 million and investment income was $15.0 million. Statement of changes in Assets for the year ended December 31, 2010 is shown below:

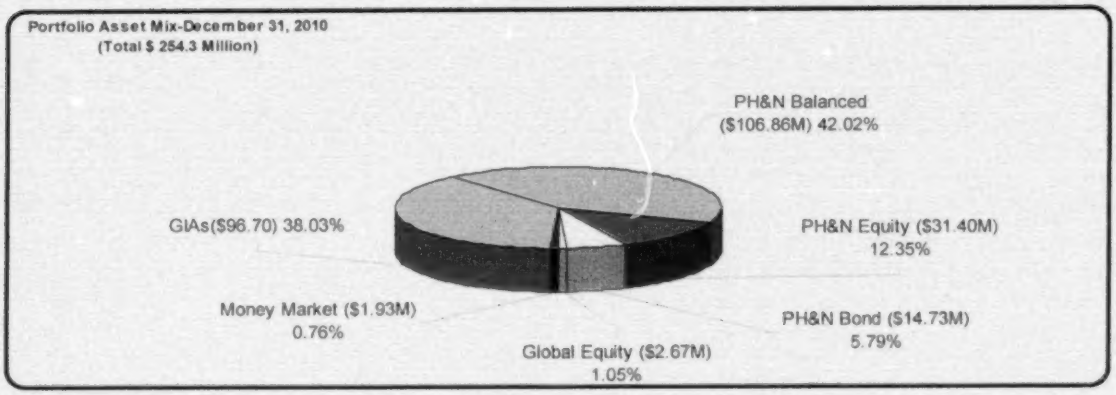
Statement of Changes in Assets for the Year Ended December 31

(Market Value)

	2010 ($Millions)	2009 ($Millions)
Opening Balance, January 1	**231.2**	**$202.2**
Contributions to the Plan	25.0	23.2
Investment Income	15.0	27.1
Total Additions	**40.0**	**50.3**
Refunds to Terminating Plan Members	16.6	21.0
Administration Costs	0.3	0.3
Total Deductions	**16.9**	**21.3**
Net change in assets	23.1	28.9
Market Value, December 31	**$ 254.3**	**$ 231.2**

Portfolio Asset Mix

Based on the asset decisions of plan members and the direction of the employer's share to the balanced fund, the asset mix of the portfolio as of December 31, 2010 is illustrated in the following chart:



Investment Performance as of December 31, 2010

The following table details the performance of the GMPP market based funds to December 31, 2010:

Government Money Purchase Pension Plan (GMPP)
Summary of Investment Returns as at December 31, 2010
with Benchmark comparisons

Investment Options	Three Months %	Twelve Months %	Four Years Annualized % p.a.	Ten Years Annualized % p.a.
Balanced Pension Trust	4.5	9.5	2.2	4.4
Benchmark*	4.4	10.2	2.4	4.4
Canadian Equity Fund	9.1	13.8	1.9	7.0
S&P/TSX Composite Index	9.4	17.6	4.0	6.6
Bond Fund	-0.3	7.5	6.1	6.8
Dex Universe Bond Index	-0.7	6.7	5.6	6.3
Global Equity Fund	5.2	6.7	-4.9	-3.4
MSCI World ex Canada Index	5.5	5.9	-5.6	-2.0

* Current benchmark composition: 35% S&P/TSX Capped Composite Index, 25% MSCI World ex Canada Index, 35% Dex Universe Bond Index, 5% Dex 30-Day T-Bill Index.
Note: All performance data is shown on a gross or pre-fee basis.

Asset Mix and Fund Performance information was extracted from the December 31, 2010 PH&N Fund Management Report

10.0 Activities

Issues

The GMPP was introduced in 1989 to provide a pension for part time employees and full time employees of public sector employers who were ineligible to participate in the full time plans. It is a capital accumulation plan where employee contributions, together with the employer match, are deposited to individual accounts. The employee has the option to allocate these contributions to a variety of investment vehicles including a balanced fund,

an equity fund, a bond fund, a global fund and guaranteed investment accounts with various maturities. The amount that will accumulate to the employee's credit and that will be available to provide income at retirement is dependent on the investment option selected by the employee.

With the assistance of the plan custodian, GWL, employees are provided with tools to evaluate their risk tolerances and to assist in making the best investment choice. Despite efforts to engage them, many employees seem content to let their funds remain in the lower return, guaranteed option. While this may be a suitable investment for certain employees, particularly those who anticipate moving to full time employment, it is evident from the asset mix of the GMPP portfolio that many employees are not seeking advice with respect to their accounts, as it would be expected that there would be a greater allocation to the balanced fund.

The Committee has endeavoured to engage employees in the process by offering annual education seminars across the province. Participation in these sessions has been low, but increasing slightly year over year. The objective is to increase attendance at these seminars, with a long term view to improving investment selection. At some point, if employee interest in their plan does not improve, the Committee may have to look at alternative measures to ensure that the funds are invested in a prudent manner.

Objective:

By December 31, 2010, the number of employees who have made an investment selection will have increased from the previous year.

Measure: Rate of investment selection by members increases.

Indicator: Number of information sessions conducted at locations most beneficial to plan members for the purposes of increasing attendance.

11.0 2010 Results

The rate of investment selection decreased slightly in 2010, with the percentage of employees in the plan making an active investment decision decreasing by 2%, from 38% in 2009 to 36% in 2010. With approximately 32% of member assets still allocated to the one year guaranteed investment account, it is evident that most members are not taking an active interest in their investments.

One of the main reasons for the slow growth in the number of employees making choices is the nature of their employment. Many members work part time and view participation as a temporary situation until they can find full time employment in the public sector and join one of the full time pension plans. Similarly, employers are hesitant to support the various communications initiatives and, in many cases, do not have the flexibility to give employees the time to attend the annual seminars.

The Committee continued its efforts to encourage employees to attend annual information sessions during the year. A total of 28 sessions were held at locations across the province,

with 26 of these held at employer sites. Attendance at this year's sessions failed to meet expectations with only 351 employees participating as compared to 366 in 2009. Efforts focused on providing sessions in areas with higher numbers of employees and, wherever possible, sessions were held on site at employer locations. If requested, sessions were held after normal working hours. As well, efforts were stepped up to encourage employers to promote the sessions. In several instances, employers took the time to notify each employee in advance of the time and place for each session. Posters were prepared and distributed to all employers for display. On the positive side, those who attended the sessions found them very informative and worthwhile.

The committee will continue to evaluate options with respect to improving attendance at these sessions.

12.0 Highlights of 2010

The GMPP Act was amended to permit employees on periods of authorized leave without pay to contribute to the plan for the period of leave, with the employer matching those contributions. The method to calculate the cost for these periods of leave will be finalized in 2011. As well, provision was also made for employers who participate in any of the other government sponsored plans, most notably the Public Service Pension Plan, to participate in the GMPP.

13.0 Opportunities and Challenges

Plan Member Education

As evidenced by the high percentage of investments in the Balanced Funds and Guaranteed Investment Accounts (GIAs), many plan members are reluctant to make active investment decisions with respect to their accumulated funds. If plan members do not direct their funds to specific investment options, their contributions are directed to GIAs and the matching employer contributions to the Balanced Fund.

In order to encourage plan members to take a more active interest in the GMPP, officials of the Department of Finance and Great West Life will continue to offer seminars to all plan members that will focus on educating members on the importance of investment selection. The Committee will continue to monitor the level of interest in investment selection.

Evaluation of Default Investments

Another issue under consideration by the committee is the default investment. Currently when a plan member neglects to select an investment option, the employee's share of the contribution remains invested in the default investment - GIAs. The employer's share is directed to the balanced fund. The Committee, in consultation with its advisors, will be assessing other alternatives, such as target date funds, for the investment of the employee's share, particularly in the case of employee's who have met the vesting criteria under the plan.

14.0 Contact Information

1. Great West Life
   London, Ontario
   N6A 4K1

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   Website: www.grsaccess.com

2. Pensions Division
   Department of Finance
   Main Floor, East Block
   Confederation Building
   St. John's, NL
   A1B 4J6

   Telephone: (709)729-3931
   Website: www.fin.gov.nl.ca/fin/pensions

3. Phillips Hager & North Investment Counsel
   Suite 2320, Box 207
   1 Adelaide Street East
   Toronto, On M5C 2V9

   Telephone: 1-(800)-661-6141
   Website: www.phn.com